

## **Foreword**

**Background:** This Foreword provides an overview of the 2002 Bureau of Reclamation ratesetting process and summarizes key considerations underlying development of the 2002 Central Valley Project (CVP) water rates and fiscal year (FY) 2000 contractor accountings. These considerations focus primarily on: 1) significant changes from prior years in amounts and/or procedures, including new legislative requirements and impacts; and 2) input received from contractors and the Central Valley Project Water Association (CVPWA) on the 2002 draft water rates and the fiscal year 2000 draft contractor accountings. Based on the input received, the 2002 water rates and the 2000 contractor accountings have been updated and are provided in this document as final.

Please note that Reclamation has a site on the Internet where the 2002 water rate schedules are posted for reference. This site can be accessed at [www.mp.usbr.gov/cvpwaterrates/](http://www.mp.usbr.gov/cvpwaterrates/). If there are any problems in accessing the site or viewing the schedules, please contact Ms. Dorothy Wheeler at 916-978-5379.

## **Accounting and Budget Review**

**Background:** Annually, the draft contractor accountings and the Budget are provided to the CVPWA for their review and comment. Based on their review and comment, Reclamation sent a letter to the CVPWA explaining the adjustments that were made to the accountings and to the 2002 Operation and Maintenance (O&M) costs. They are summarized as follows:

### **I. FY 2000 Contractor Accounting Review**

Coleman Fish Hatchery (Irrigation and M&I) – Excluded costs that had already been included in the preceding years accountings. The adjustment reduced the Storage costs allocable to irrigation and M&I for FY 2000 by \$2,374,877 and \$548,119 respectively.

San Luis Water District, Delta Mendota Canal (Irrigation) – Excluded \$247,860 of costs inadvertently included for subject district.

Placer County Water Agency (Irrigation) – The draft accountings included unused water deliveries and associated revenue for subject district along with associated costs. The contractor has been granted relief for these costs and accordingly these water deliveries, associated revenue, and costs have been removed from the final accounting.

Chowchilla Water District (Irrigation) – The draft accountings included unused water deliveries only for this contractor. There were no associated revenues or cost and these deliveries have since been removed.

Provident Irrigation District (Irrigation) – Included 2,000 acre-feet of water deliveries that were inadvertently excluded in the draft accountings.

## **II. 2002 O&M Budget Review**

Trinity Dam and Reservoir - Storage costs for 2002 were reduced for work that was rescheduled to 2003. The reduction to irrigation and M&I are \$26,324 and \$4,409 respectively.

System Control and Load Dispatching - Water marketing costs for 2002 were reduced for work that has been reprioritized. The reduction to irrigation and M&I are \$503,300 and \$71,600 respectively.

### **Administrative Dispute Resolution (ADR)**

**East Bay Municipal Utility District (EBMUD) Amendatory Contract.** EBMUD and several other M&I contractors were actively engaged in an alternative dispute resolution (ADR) process to address the impact of certain provisions of the EBMUD amendatory contract executed July 20, 2001. One of the key objectives of the ADR process was to develop and submit a joint proposal to Reclamation concerning the water delivery base used in allocating capital costs amongst all M&I contractors. Unfortunately, the ADR process reached an impasse, and Reclamation was left to decide on the delivery base issue without the benefit of a consensus proposal from the contractors.

Reclamation, with considerations of the dry year provisions of the amendatory contract, interprets the contract maximum entitlement for EBMUD to be the 3-year average of 165,000 a/f, or 55,000 a/f per year. Please note that this is an **interim** solution, and that Reclamation will be collaborating with the contractors in developing a long-term solution.

### **Central Valley Project Improvement Act (CVPIA)**

Prior year water rates have consistently excluded subject capital costs from water rates until such time the crediting of Restoration Fund revenues is determined. As this determination has not yet been made, CVPIA capital costs will remain out of the rate computations.

### **Impact of Legislation**

## **I. Title Transfer of Sly Park Dam and Reservoir and Sugar Pine Dam and Reservoir**

Public Law 106-377, Section 212, directed Reclamation to transfer all right, title and interest in and to the Sly Park Unit to the El Dorado Irrigation District. Public Law 106-566, Section 501, directed Reclamation to transfer all right, title and interest in and to the Foresthill Divide Subunit (including Sugar Pine Dam and Reservoir) to the Foresthill Public Utility District. The conditions for which these transfers are to take place have not been completed and in consultation with our Solicitor's Office, these facilities will

remain in the ratesetting for capital and related cost recovery until all conditions of the respective legislations are fulfilled.

## **II. City of Roseville Pumping Plant Facilities**

Per Public Law 106-566, Section 301, Reclamation shall credit the City of Roseville for the purchase and funding for the installation of additional pumping plant facilities in accordance with a letter of agreement with Reclamation. The credit will take effect on the date the following two conditions are met: 1) the installation of the pumps has been completed in accordance with the letter of agreement; and 2) Reclamation has issued a determination that these facilities are fully operative as intended. The Central California Area Office has not formally accepted the pumps and, therefore, the 2002 rates exclude any credit.

## **III. Clear Creek 9D Distribution System**

Per Public Law 106-566, Section 401, Reclamation shall convey the distribution system to the District pursuant to the conditions set forth in this section. Those conditions have been met and, accordingly, the District's distribution system costs have been excluded from the 2002 rate calculations.

## **IV. Trinity Public Utilities Assessment**

Public Law 106-377, Section 203 directs the Bureau to collect from water service contractors the assessed amount of \$162,000 annually (indexed after June 2000) and pay the amount to the Trinity Public Utility District. Based on discussions by the water community and Reclamation, along with input from the Regional Solicitors' Office, agreement was reached that the assessment would be collected through the water ratesetting process. For 2002, a component for 2001 and 2002 assessment has been included in the rates, which increases the Water Marketing component by approximately \$.09 cents per acre-foot.

### **Project Use Energy**

The total estimated project use energy costs were reduced by \$11,580,000 from the total included in the draft water rates. The draft water rates included a component for anticipated additional charges as a result of the PG&E FERC case filing. Under this filing, there was concern that the project use energy costs would increase if the contract ended earlier than its 2004 date. However, these concerns were eliminated as a result of a September 21, 2001 FERC Administrative Law Judge ruling, which stated that the contract will continue through 2004.

For Cross Valley Canal Users, the costs for Banks and Dos Amigos pumping are considered a part of their Direct Pumping charges and included in the accountings and

water rates. This is a change from prior procedures and the adjustment was made pursuant to input and discussions with key water authority officials.

### **Provision for Replacement PFR)**

The 2002 provision for replacement (PFR) estimated O&M costs were removed from the applicable ratesetting O&M cost components. Reclamation is anticipating making adjustments relative to individual contractors' historical records in the 2001 accountings.

### **Water Marketing and Storage Rates Review**

In coordination with the CVPWA, a work team was established to determine whether or not projected water marketing and storage costs reasonably represented what was expected for actual costs. The work team concluded that overall the base costs seemed reasonable, however, the following three items required adjustment or further review:

1) General expense: For the draft rates, the total budgeted general expense (\$3,697,000) was allocated a share to irrigation and M&I contractors in the amount of \$2,125,445. As agreed in a water marketing and storage O&M work team meeting, the 2002 budgeted costs would be reviewed by Reclamation, and if necessary, adjusted for the final water rates. Reclamation decided that an adjustment to reflect consistent and reasonable cost distribution methods was necessary for the 2002 water rates. Although time did not allow a public review process prior to updating the 2002 water rates, this process will be provided prior to finalizing the 2003 water rates. For the 2002 water rates, the estimate used for irrigation and M&I water contractors was based on the actual distribution of general expense costs to irrigation and M&I contractors for the American River Division in FY 2000. This Division's distribution of general expense costs was appropriate since it accounted for roughly 80 percent of the total general expense for the CVP in FY 2000. In this year, 18.5 percent of the American River division general expense costs were distributed and allocated to irrigation and M&I. The 2002 total budgeted costs for CVP are not being adjusted for ratesetting as these expenditures are still planned. However, for 2002, irrigation and M&I estimated general expense was revised to \$683,945 (18.5% times \$3,697,000) resulting in a reduction of \$1,441,445 for irrigation and M&I contractors from that included in the draft rates.

2) Non-Permanent contractor revenue: These revenues have never been estimated for ratesetting purposes although they are historically included in the annual actual contractor cost accountings. The work team reviewed and reached consensus that non-permanent revenue should be reflected as a reduction to the estimated Water Marketing costs once a public review process was complete. This process is now complete and the adjustments included for irrigation and M&I are reductions to Water Marketing in the amounts of \$1,700,000 and \$1,100,000, respectively.

3) Project use energy costs: Although these costs affect the estimated Storage O&M costs they were not considered for analysis in the scope of the work team since they were determined to be highly dynamic and in a state of flux during the current energy

environment facing California. The project use energy estimates included in the 2002 water rates are \$12,119,900 plus \$3,159,984 for the historical true-up estimate.

Reclamation appreciates the interest and involvement received from all water entities in the process of reviewing and finalizing the 2002 CVP water rates. For the open issues, Reclamation plans on making a coordinated effort with these water entities to assure the costs and delivery data is representative of what is expected to be allocated and charged to contractors in future years.

Questions on the 2002 CVP water rates should be addressed to Mr. Jesus Reynoso @ 916-978-5362 (TDD-916-978-5608).

File:I: Wtrates\rates\2002\special\other\2002Foreword final.z04.doc  
2/27/02.